Mr. Ajmera's column as on October 06, 2014

Q2FY15 earnings and festive season to decide markets direction…

Equity benchmarks witnessed consolidation for the third consecutive session on Wednesday (last trading day of previous week on account of holidays) as investors preferred to stay away from taking big position ahead of long weekend. Overseas investors have pumped in a little over Rs 5,100 crore (US$ 845 mn) in Indian equity markets in September, making it the lowest net investment in seven months since February this year, when they pumped in US$228 million.

Sensex fell by 62.52 points to close at 26567.99 and Nifty declined 19.25 points to 7945.55 while the broader markets too saw marginal loss. We believe the consolidation may continue in near term with downward bias. According to us, the market will get direction from September quarter earnings (will begin on October 10 with Infosys) and two state elections (Maharashtra and Haryana) in October. For the week, the Sensex and Nifty declined 0.3 percent each, continuing weakness for the second consecutive week while CNX Midcap and BSE Smallcap indices outperformed benchmarks, up 0.6 percent and 1.2 percent, respectively. The market remained closed from October 2 to October 5 and will reopen on Tuesday after five-day holidays. Indian equity, debt and commodity markets are closed today on account of Eid.

Global markets

In Asia, Japanese stocks bounced strongly on Monday and the U.S. dollar held near four-year highs against a basket of currencies, spurred by U.S. jobs data after a week of worries about global growth and geopolitical tensions frayed investor nerves.

Tokyo's Nikkei jumped 1.3% while Hong Kong shares rose 0.3%, extending their recovery from falls last week when concerns about civil unrest in the Chinese-controlled city had spooked investors. There has been some signs of the protests fizzling out.

MSCI's dollar-denominated index of Asia-Pacific shares outside Japan was down 0.1%, as the boost from positive U.S. data was offset by weaker Asian currencies and falls in Australian mining shares.

Stocks on Wall Street jumped more than 1.0% on Friday, with the S&P 500 posting its best day in almost two months to end at $1,967.90.

The US dollar was another clear winner, as the data highlighted the relative strength of the U.S. economy as many other major economies remain sluggish.

Ajcon's view:

For the week, the market trend will be dictated by second quarter (July-September) earnings with Infosys scheduled to announce its earnings on October 10. For India's leading companies, earnings growth is expected to remain stable in the July-September quarter of the current financial year.

According to street participants, the earnings of BSE's Sensex companies (excluding financial ones) are expected to grow at a double-digit rate - at around 11 per cent on a year-on-year basis - in the July-September period of this year.

Over the past four quarters, the Sensex companies' earnings trajectory has improved sharply because of a weak rupee. Though the Indian currency has recovered from the lows it hit in August last year, the Sensex companies' earnings growth momentum has not been affected.

On revenue growth, our view is largely optimistic. If oil & gas companies are excluded, the rate of revenue growth might be even higher - at 10.9 per cent. That is because street is assuming zero compensation to oil marketing companies in the September quarter, besides subdued refining margins, forex fluctuations and inventory losses.

The recent reports about a separate think tank being created in RBI to decide independently about the interest rates movement, should augur well with financial and real estate companies.

India's outperformance has also sparked concerns that its valuations might be somewhat stretched, given that the actual recovery in the economy and corporate earnings are still some time away. The index is trading at 16.5 times to its one-year forward estimated earnings, while China's Shanghai Composite Index's is trading at 9.9 times, Brazil's Ibovespa Index is trading at 11.8 times, and Russia's MICEX is at 5.1 times.

We believe the markets should open on Tuesday on a high note and advise the investors to book profit at every such rise. At current levels, we would recommend buying in stocks in sectors like Private Banking, NBFCs, Realty, Capital Goods, Infrastructure and Pharma.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

CIN: L74140MH1986PLC041941

Website: www.ajcononline.com

Corporate and Broking Division : 408 – (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40